The Oshawa Group Limited
Annual Report
FOR THE FISCAL YEAR
ENDED JANUARY 26, 1980

Paul file

file

Oshawa

Contents

Pressures of inflation and escalating energy costs have made a cost-efficient warehousing and distribution system increasingly vital to a company supplying a widespread network of retail establishments. Oshawa has expanded and modernized its distribution centres and today is better than ever equipped to supply food and general merchandise stores from the Atlantic to Alberta. With the opening of new centres in Winnipeg (cover photo), Regina (page 7) and Moncton (page 13), Oshawa's warehouse capacity now totals 2,023,000 square feet and its commercial frozen storages, 3,173,000 cubic feet. The size and scope of the system is illustrated on the pages that follow.

La version en français de ce rapport sera envoyée sur demande.

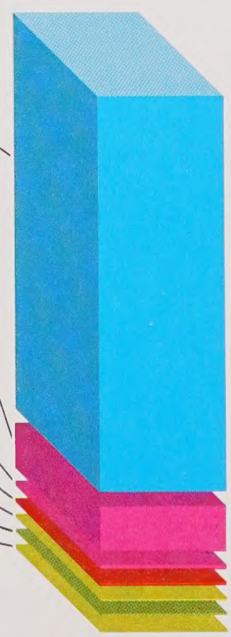
Results in Brief

(in thousands of dollars)	**January 26, 1980**	January 27, 1979	% Change
Sales	**$1,475,663**	$1,336,784	10.4
Earnings Before Extraordinary Items	**8,457**	7,766	8.9
Earnings Per Share Before Extraordinary Items	**1.25**	1.15	8.7
Extraordinary Items	**1,648**	2,517	(34.5)
Net Earnings	**10,105**	10,283	(1.7)
Earnings Per Share	**1.50**	1.52	(1.3)
Dividends Paid Per Share	**0.42**	0.34	23.5
Number of Shares Outstanding	**6,749,904**	6,749,904	—

NUMBER OF STORES AT YEAR END	
IGA Associates	**361**
Other Franchise Food Markets	**568**
Company-owned Food Markets	**92**
Non-affiliated Food Markets	**1,276**
Combination Food & Department Stores	**2**
Discount Department Stores	**43**
Drug Marts	**20**
Pharmacies	**22**
Health & Beauty Aid Stores	**5**
Restaurants & Snack Bars	**75**

Distribution of Sales Dollar

87.57¢	Merchandise, services and related expenses
9.87	Payroll and employee benefits
.90	Interest expense
.67	Depreciation
.31	Corporation income taxes
.19	Dividends paid
.49	Retained for growth
100.00¢	



1979 earnings of The Oshawa Group Limited were higher with food and general merchandise divisions showing the most substantial improvement. Consolidated sales of $1,475,663,000 increased by 10.4%.

Sales

Sales by category in thousands of dollars:

	January 26, 1980	January 27, 1979	% Change
Wholesale food	**$ 681,482**	$ 600,834	13.4
Retail food	**406,650**	375,222	8.4
Institutional	**85,294**	78,703	8.4
General merchandise	**302,237**	269,860	12.0
U.K. operations	**—**	12,165	—
	$1,475,663	$1,336,784	10.4

Sales by Division in thousands of dollars:

	January 26, 1980	January 27, 1979	% Change
Wholesale and Retail Food			
Ontario Food Division	**$ 544,333**	$ 480,896	13.2
Hudon et Deaudelin Ltée	**314,386**	279,371	12.5
Codville Distributors	**182,205**	176,055	3.5
Bolands	**78,997**	70,163	12.6
Institutional			
Hickeson-Langs Supply Company	**50,508**	45,050	12.1
The Ontario Produce Company	**36,700**	36,329	1.0
Langs Cold Storage	**2,554**	2,183	17.0
Model Laundry	**1,602**	1,442	11.1
General Merchandise			
Towers Department Stores	**263,599**	234,017	12.6
Kent Drugs Limited	**25,597**	23,126	10.7
Restaurants	**7,932**	8,137	(2.5)
Gas Bars	**5,109**	4,580	11.6
Other			
Coinamatic Laundry Equipment Limited (U.K.)	**—**	12,165	—
Inter-divisional sales	**(37,859)**	(36,730)	
	$1,475,663	$1,336,784	10.4

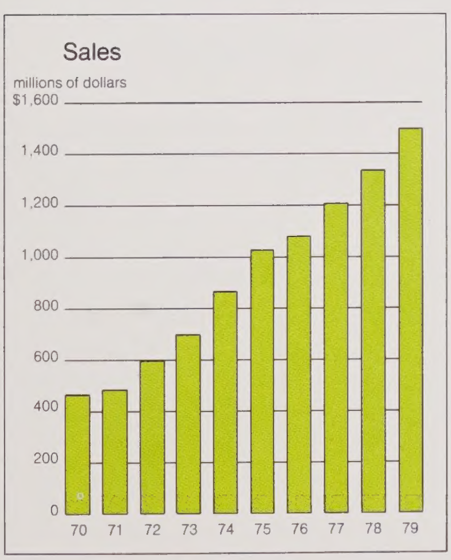
Wholesale food sales improvement was most dramatic following marketing changes.

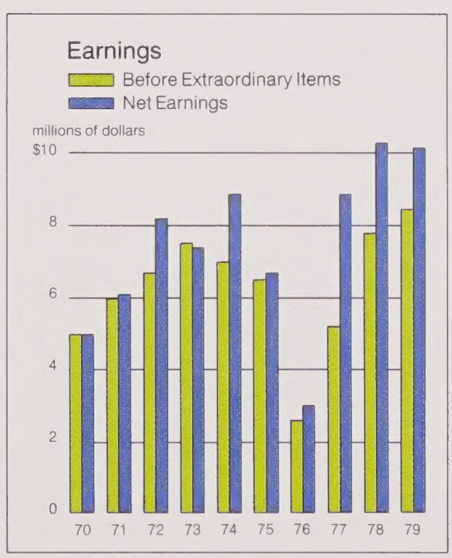
The most significant improvement was recorded in wholesale food sales due largely to the introduction of major marketing changes by the Ontario Food Division in the first quarter. These consisted of new price structures which enabled IGA Associates to be fully competitive with corporate chains, and a store renovation program which materially improved shopping environment. Positive customer response reaffirmed the viability of the IGA partnership of progressive independents and consumer-oriented supply depots.

Sales increases of 13.2% in the Ontario Food Division, 12.5% at Hudon et Deaudelin Ltée in Quebec and 12.6% at Bolands in Atlantic Canada exceeded industry averages.

Improvement in the Institutional Group was also encouraging. Hickeson-Langs Supply Company recorded a 12.1% increase. The expansion of the Langs Cold Storage London, Ontario plant contributed to a 17% sales gain and Model Laundry recorded an 11.1% increase. The Institutional Group was negatively affected by crop failures at Dominion Mushroom Company (now rectified) as well as consumer resistance to high prices of imported fruit and vegetables.

General merchandise sales rose 12%. Towers Department Stores' gain of 12.6%, compared with an increase of 8.9% in the previous year, reflected





Earnings from operations increased by 8.9%.

more competitive pricing, improved product selection and upgraded store facilities. Kent Drugs Limited recorded a 10.7% sales improvement but restaurant sales were lower due to the closing of some unprofitable units.

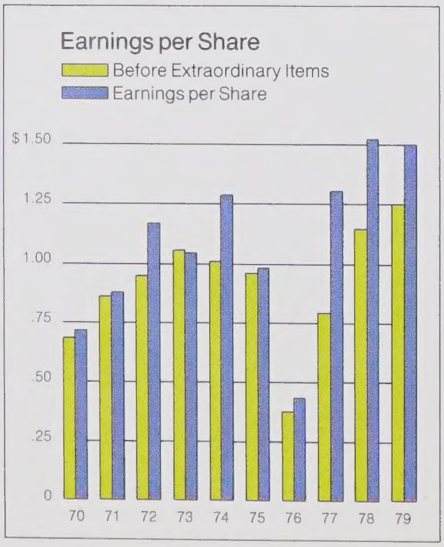
Earnings

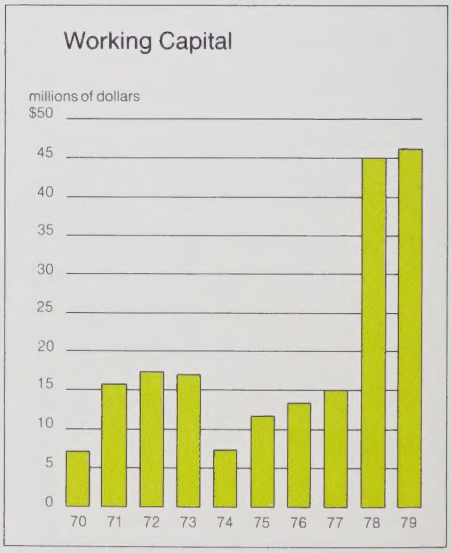
Earnings from operations of $8,457,000 ($1.25 per share) were 8.9% higher than $7,766,000 ($1.15 per share) last year. All groups contributed to the increase with the exception of Institutional which was affected by the Dominion Mushroom Company problem referred to previously. Extraordinary items from sale of investments brought net earnings to $10,105,000 ($1.50 per share).

Escalating rates increased interest expense to $13,337,000, $1,533,000 higher than last year despite lower borrowings.

Financial Position

Financial position continued to improve with working capital of $46,146,000 ($6.84 per share), higher by $1,130,000 after capital expenditures of $21,524,000. These included a distribution centre in Winnipeg (cover photo), a department store in Ottawa and the expansion and remodeling of a number of corporate food and department stores.





Annual dividends paid increased eight cents to 42 cents per share.

Inventories were 10% higher at $117,833,000 reflecting inflationary increases as well as retail expansion. Bank indebtedness at year end was $23,806,000, a reduction of $2,391,000 from the previous year.

Long term debt increased by $5,059,000 principally due to the financing related to the Winnipeg distribution centre.

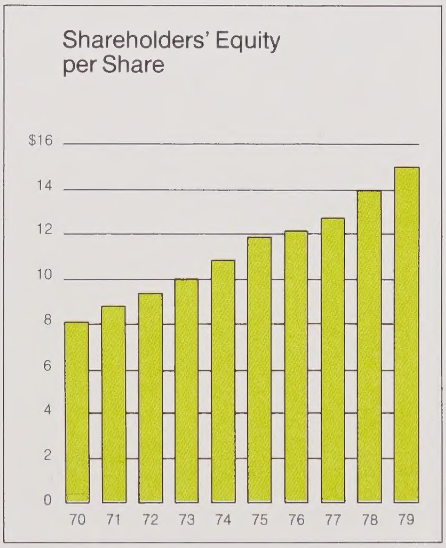
Dividends and Shareholders' Equity

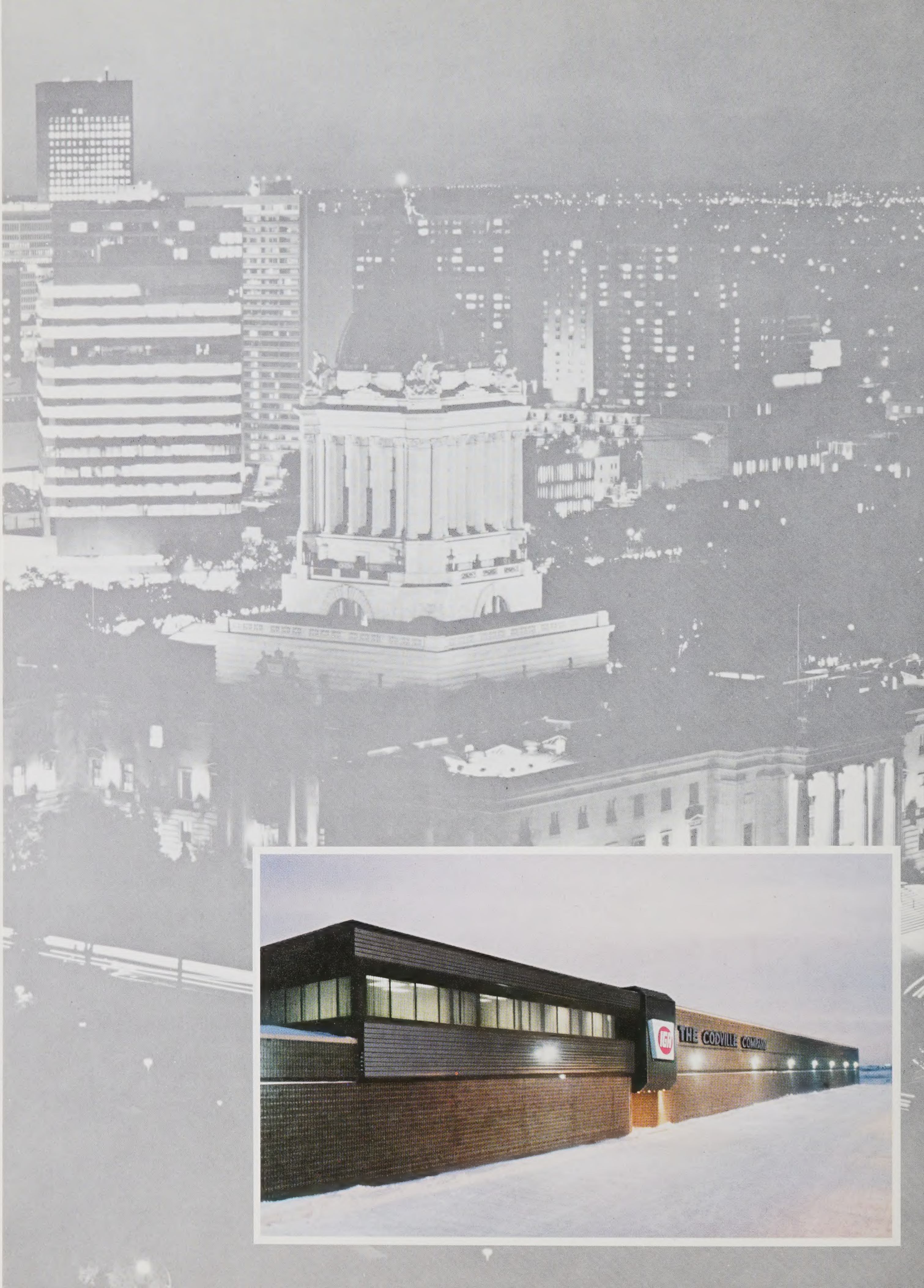
Dividends of $2,834,960 (42¢ per share) were paid at the rate of 10½¢ per share per quarter. This was an increase of eight cents per share over the previous year.

A first quarter dividend of 11½¢ per share was declared January 25 and paid March 10, 1980.

Subsequent to year end, the Company adopted an optional stock dividend policy whereby shareholders may elect to receive dividends in cash or Class A shares.

There was no change in capital stock during the year and Shareholders' Equity at year end was $101,107,000 ($14.98 per share).




THE CODVILLE COMPANY

New energy efficient Winnipeg supply depot facilitates accelerated growth in Western Canada.

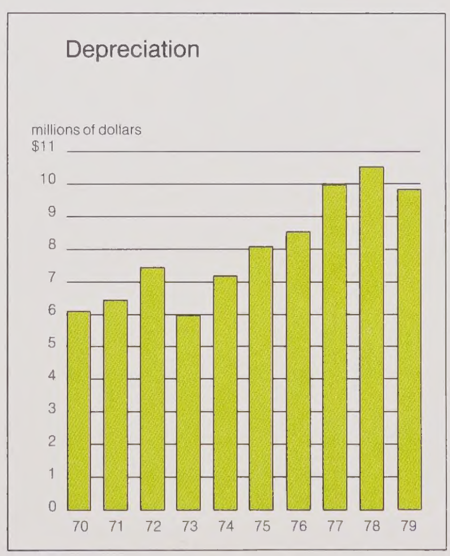
Expansion and Development

The most significant new facility was the Codville supply depot in Winnipeg. This is one of Canada's most modern and energy efficient distribution centres. The 262,000 square foot centre (more than six acres under one roof) receives 24% of its heating requirements from waste heat discharged from refrigeration units. As a result of this increased capacity, Codville is embarking on an accelerated growth program.

During the year 20 IGA units were opened, 12 expanded, 27 modernized, 11 closed and several converted to other programs. Six corporate food stores were remodeled and computer assisted check-out systems installed in three. Sixteen convenience stores were added.

Towers opened a department store in Ottawa and closed one in Oakville. Five Drug City units were opened and two expanded.

The decision to concentrate on less capital intensive wholesale operations resulted, following the year end, in the conversion of five corporate retail food units in the Codville Division and two in Bolands to the IGA program and two corporate Hypermarché stores in Quebec to IGA-Boniprix. Four Hypermarché food markets, including the Laval and Décarie Square stores



Superimposed on a night scene of Winnipeg (facing page), is the new Codville head office and distribution centre. It supplies Manitoba and Northwestern Ontario retailers. At left the Codville Regina (top) and Saskatoon warehouses serve Saskatchewan.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The 1980 expansion program will be the most dramatic in years.

were sold. In Ontario, where Oshawa's Food City chain with 44 units has strong market penetration, both corporate and franchise expansion will continue.

The 1980 program will be the most dramatic in many years. A total of 26 IGA stores are planned to be opened, 14 expanded and 19 modernized. Three large corporate food markets will be opened and two expanded. Plans also include 35 convenience stores and one cash and carry unit.

General merchandise growth plans include two Towers Department Stores, one expansion and 12 renovations. Four Drug City Marts will open and one will be expanded.

Langs Cold Storage which enlarged its London freezer plant by 380,000 cubic feet in 1978, will complete a further expansion of 703,000 cubic feet by June, 1980.

Real Estate

A third phase of Oshawa's downtown Sudbury City Centre complex is under way and will provide an additional 43,000 square feet of retail space on two floors for a total of 422,000 square feet, and 44,000 square feet of office space on four floors for a total of 65,000 square feet. Retail leasing is

Facing page: Oshawa's principal Toronto distribution centres—perishables from the Queensway Centre (top) and groceries and general merchandise from the Malton Centre (below). At left are Ontario institutional food supply facilities—1. Langs Cold Storage and Hickeson-Langs in London; 2. Bradford Packaging; 3. Langs Cold Storage and Hickeson-Langs in Hamilton and 4. Hickeson-Langs' main warehouse in Toronto.


Hudon et Deaudelin

Despite a clouded general business outlook, Oshawa has a strong foundation for growth.

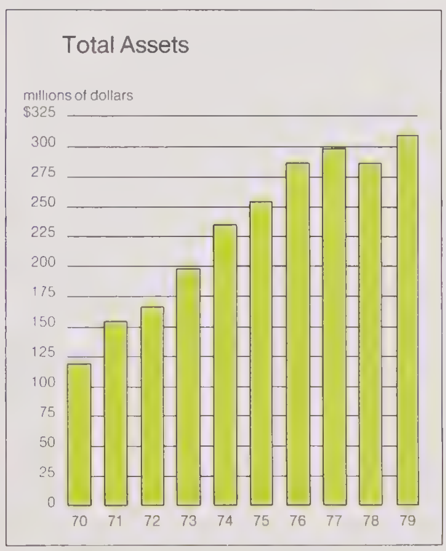
well advanced and occupancy is scheduled for October, 1980. The offices will be completed in March, 1981. City Centre with two department stores, a supermarket, 47 shops, two theatres, a hotel and an indoor parking garage is the commercial hub of Sudbury.

At year end, real estate holdings at cost less accumulated depreciation amounted to $74,258,000, an increase of $7,792,000. Mortgages and long term debt associated with these properties was $56,355,000.

Looking Ahead

The general business outlook is clouded by uncertainty. Gyrations in international and domestic money markets, rising energy costs, and inflation-fueled escalations in labor and other costs combine to render short term forecasts difficult and long term predictions impractical.

Nevertheless, with the foundation of a strong and growing family of competitive independent food merchants supported by a modern, strategically located network of distribution centres; with general merchandise outlets specifically geared to serve increasingly value-conscious consumers,



Montreal facilities include the Hudon et Deaudelin Ltée head office and warehouse (facing page); the soft goods distribution centre (at left, top) and Hudon et Deaudelin's convenience store warehouse.


IGA SUPPLY DEPOT

Oshawa believes the future of IGA Associates never has been more promising.

and the disposition of unprofitable retail units, Oshawa is well positioned to face the challenges of the changing environment with confidence.

In these turbulent times, it is important to have a specific position in the marketplace. Oshawa established that position more than a quarter of a century ago when it introduced to Canada the IGA voluntary group concept that enabled progressive independents to thrive in a marketplace increasingly dominated by corporate chains. In the past year, that concept was strengthened by assisting the independents to be even more competitive and the results have been exciting.

There are other reasons for the current growth in the strength of IGA retailers. They have better control of costs than the chain stores and their percentage of profit to sales is higher. Since rising gasoline costs tend to discourage long-distance shopping, IGA's neighborhood locations are an added attraction.

It is Oshawa's belief that the future of the competitive independent has never been more promising. The proof of its commitment to participation in that future is amply demonstrated by the number of IGA openings outlined in the Expansion and Development section of this report.

The Food City chain which is well established and profitable will continue to grow. Food City contributes materially to the volume necessary to

Nova Scotia stores are supplied from Bolands' Dartmouth distribution centre (facing page) and New Brunswick units from the new Moncton warehouse (left).

The Company plans to be the first national institutional food supplier.

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ensure the competitive posture of the independents as well as providing a training ground for future IGA Associates.

In the institutional field, expansion of grocery, produce, frozen food and commercial frozen storage facilities is planned in areas now inadequately serviced or where the Company is currently dependent on outside suppliers. Oshawa is committed to becoming the first truly national institutional food supplier through new installations and acquisitions.

Growth of the department store and drug mart chains will continue as new locations become available. Profitability of Towers has improved substantially with implementation of new marketing and pricing policies, extensive modernization of stores and important changes in distribution methods.

The foregoing indicates that results of the current and succeeding years will continue to show improvement.

The advances achieved and sought depend on the support and cooperation of staff, management, shareholders, suppliers and above all, customers. The Company is indebted to all groups and extends its sincere appreciation.

Ray D. Wolfe
Chairman and President

Market Penetration

Manitoba, Saskatchewan & Northwestern Ontario

IGA Associates	95
Other Franchise Food Markets	393
Company-owned Food Markets	12
Non-affiliated Food Markets	810
Distribution Centres	6

Ontario

IGA Associates	133
Other Franchise Food Markets	60
Company-owned Food Markets	60
Non-affiliated Food Markets	45
Discount Department Stores	31
Drug Marts	19
Pharmacies	22
Health & Beauty Aid Stores	5
Restaurants & Snack Bars	48
Gas Bars	5
Distribution Centres	11

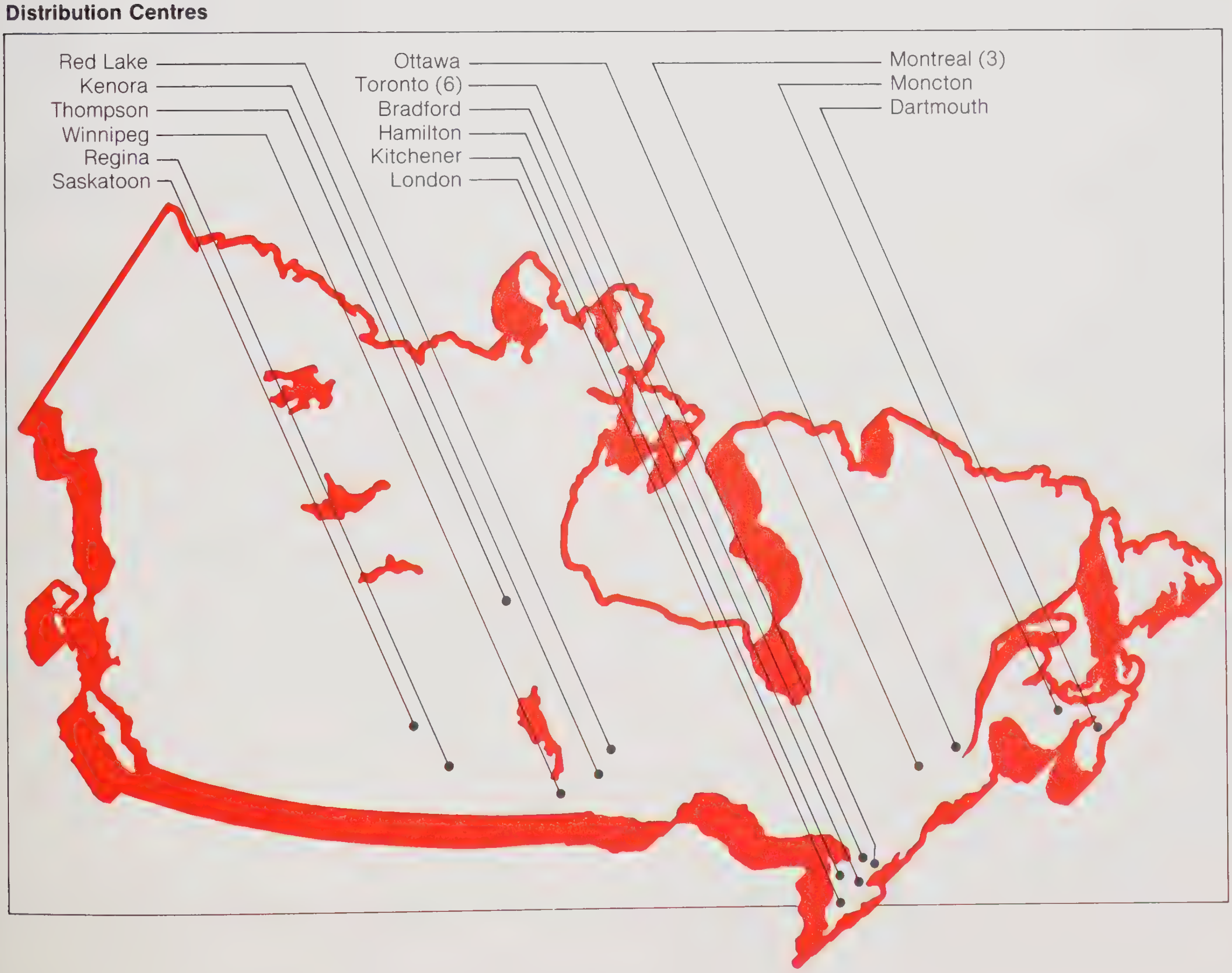
Quebec

IGA-Boniprix Associates	92
Other Franchise Food Markets	115
Company-owned Food Markets	15
Non-affiliated Food Markets	400
Discount Department Stores	9
Restaurants & Snack Bars	15
Gas Bar	1
Distribution Centres	3

Atlantic Provinces

IGA Associates	41
Company-owned Food Markets	5
Non-affiliated Food Markets	21
Combination Food & Department Stores	2
Discount Department Stores	3
Drug Mart	1
Restaurants & Snack Bars	12
Distribution Centres	2

Distribution Centres



Ten Year Comparative Summary

(in thousands of dollars)

Year Ended	Sales	Depreciation	Income Taxes	Earnings Before Extraordinary Items	Earnings Per Share Before Extraordinary Items *	Earnings Before Extraordinary Items as a % of Sales	Net Earnings	Net Earnings Per Share †*	Funds From Operations	Total Dividends Paid	Dividends Paid Per Share	Reinvested in Business
Jan. 26, 1980	$1,475,663	$ 9,801	$4,558	$8,457	$1.25	.57	$10,105	$1.50	$18,875	$2,836**	42.0¢**	$6,493
Jan. 27, 1979	1,336,784	10,441	4,801	7,766	1.15	.58	10,283	1.52	21,858	2,295	34.0	7,988
Jan. 28, 1978	1,205,805	10,027	1,346	5,233	.78	.43	8,874	1.31	11,679	2,295	34.0	6,579
Jan. 22, 1977	1,077,575	8,629	2,031	2,578	.38	.24	2,957	.44	10,501	2,295	34.0	662
Jan. 24, 1976	1,023,857	8,135	7,699	6,456	.96	.63	6,685	.99	16,062	2,295	34.0	4,390
Jan. 25, 1975	866,518	7,243	7,223	6,969	1.01	.80	8,895	1.28	16,172	2,338	34.0	6,557
Jan. 26, 1974	697,583	5,976	6,821	7,448	1.06	1.07	7,410	1.05	15,429	2,394	34.0	5,016
Jan. 27, 1973	600,385	7,485	5,294	6,685	.95	1.11	8,234	1.17	12,921	2,110	30.0	6,124
Jan. 22, 1972	490,381	6,493	5,756	6,077	.87	1.24	6,154	.88	11,705	1,748	25.0	4,406
Jan. 23, 1971	469,771	6,104	6,034	4,844	.69	1.03	5,052	.72	10,671	1,747	25.0	3,305

Year Ended	Shares †*	Shareholders' Equity	Shareholders' Equity Per Share †*	High-Low Stock Price	Total Assets	Current Assets	Current Liabilities	Working Capital	Current Ratio	Salaries, Wages, Benefits	Number of Regular Employees At Year End
Jan. 26, 1980	6,749,904	$101,107	$14.98††	10 - 7	$309,965	$172,159	$126,013	$46,146	1.37:1	$145,576	6,583
Jan. 27, 1979	6,749,904	94,614	14.02	9 - 4⅜	287,925	161,257	116,241	45,016	1.39:1	133,819	6,768
Jan. 28, 1978	6,749,904	86,626	12.83	5½- 3⅜	299,570	150,588	135,592	14,996	1.11:1	127,447	6,919
Jan. 22, 1977	6,749,904	81,799	12.12	5⅝- 3	286,832	137,410	124,105	13,305	1.11:1	112,606	6,909
Jan. 24, 1976	6,749,904	80,397	11.91	6¾- 4	254,213	130,824	119,081	11,743	1.10:1	102,967	7,338
Jan. 25, 1975	6,931,772	75,818	10.94	8 - 3⅝	235,744	115,251	107,858	7,393	1.07:1	85,139	6,910
Jan. 26, 1974	7,041,816	70,559	10.02	11⅝- 6	199,141	95,847	78,839	17,008	1.22:1	69,424	6,169
Jan. 27, 1973	7,024,990	66,105	9.41	14¾-10¼	168,832	75,464	58,183	17,281	1.30:1	57,920	6,246
Jan. 22, 1972	6,991,515	61,243	8.76	14⅜- 8¾	156,303	59,721	43,976	15,745	1.36:1	50,169	5,602
Jan. 23, 1971	6,981,908	56,704	8.12	25⅛- 9½	120,274	57,261	50,067	7,194	1.14:1	46,881	6,316

*Combined Class A and Common.

†Net Earnings Per Share and Shareholders' Equity Per Share have been calculated on the average number of shares outstanding during the year rather than on the shares outstanding at the end of the year.

**Excludes dividend declared January 25, 1980 of 11½¢ per share, paid March 10, 1980.

††After deducting dividend declared January 25, 1980.

Consolidated Statement of Earnings

(in thousands of dollars)	Year Ended January 26, 1980	Year Ended January 27, 1979
SALES (note 8)	**$1,475,663**	$1,336,784
COST OF SALES AND EXPENSES		
Cost of sales and expenses before the undernoted items:	**1,441,421**	1,303,895
Interest (note 9)	**13,337**	11,804
Depreciation	**9,801**	10,441
	1,464,559	1,326,140
	11,104	10,644
Interest and dividends earned	**1,665**	1,860
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	**12,769**	12,504
Income taxes	**4,558**	4,801
EARNINGS FROM OPERATIONS	**8,211**	7,703
Equity in net earnings of corporate and other joint ventures	**246**	63
EARNINGS BEFORE EXTRAORDINARY ITEMS	**8,457**	7,766
Extraordinary items (note 10)	**1,648**	2,517
NET EARNINGS	**$ 10,105**	$ 10,283
Earnings per share before extraordinary items	**$1.25**	$1.15
Earnings per share	**$1.50**	$1.52
Number of shares outstanding	**6,749,904**	6,749,904

Consolidated Statement of Retained Earnings

(in thousands of dollars)		
BALANCE, BEGINNING OF YEAR	**$ 34,618**	$ 26,630
Add: Net earnings for year	**10,105**	10,283
	44,723	36,913
Less: Dividends—Class A shares	**3,520**	2,237
—Common shares	**92**	58
	3,612	2,295
BALANCE, END OF YEAR	**$ 41,111**	$ 34,618

Consolidated Balance Sheet

(in thousands of dollars)	**January 26, 1980**	January 27, 1979
Assets		
CURRENT ASSETS		
Cash	**$ 966**	$ 937
Marketable securities, at cost (market value—$1,974; 1979—$4,717)	**1,230**	2,495
Accounts receivable	**43,657**	40,763
Loans and mortgages receivable—current portion	**2,541**	2,616
Inventories	**117,833**	107,154
Real estate held for sale	**1,581**	2,053
Prepaid expenses	**4,351**	5,239
	172,159	161,257
INVESTMENTS AND OTHER ASSETS		
Loans and mortgages receivable	**4,110**	4,355
Investments (note 3)	**2,974**	2,219
Other assets	**537**	684
	7,621	7,258
FIXED ASSETS (note 4)	**130,185**	119,410
	$ 309,965	$ 287,925

(in thousands of dollars)	January 26, 1980	January 27, 1979

Liabilities

CURRENT LIABILITIES		
Bank indebtedness and notes payable (note 5)	**$ 23,806**	$ 26,197
Accounts payable and accrued liabilities	**92,823**	84,648
Dividends payable	**776**	—
Income taxes payable	**5,141**	464
Deferred income taxes	**1,099**	2,181
Current portion of long term debt	**2,368**	2,751
	126,013	116,241
LONG TERM DEBT (note 6)	**80,216**	75,157
DEFERRED INCOME TAXES	**2,629**	1,913

Shareholders' Equity

CAPITAL STOCK (note 7)		
Authorized		
11,906,100 Class A non-voting shares, without par value		
912,000 Common shares, without par value		
Issued		
6,578,528 Class A shares	**59,033**	59,033
171,376 Common shares	**44**	44
	59,077	59,077
CONTRIBUTED SURPLUS	**919**	919
RETAINED EARNINGS	**41,111**	34,618
	101,107	94,614
	$ 309,965	$ 287,925

Approved on behalf of the Board
Ray D. Wolfe, Director
Philip F. Connell, F.C.A., Director

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)	Year Ended January 26, 1980	Year Ended January 27, 1979
Source of Working Capital		
OPERATIONS		
Earnings before extraordinary items	**$ 8,457**	$ 7,766
Items not affecting funds from operations:		
Depreciation	**9,801**	10,441
Deferred income taxes	**716**	3,570
Equity in net earnings of corporate and other joint ventures	**(246)**	(63)
Other	**147**	144
FUNDS FROM OPERATIONS	**18,875**	21,858
OTHER		
Issue of long term debt	**7,258**	7,924
Gain on sale of marketable securities	**1,598**	1,621
Sale of fixed assets	**948**	460
Decrease in loans and mortgages receivable	**245**	2,813
Proceeds on sale of Coinamatic Laundry Equipment Limited (U.K.) less working capital and income taxes	**—**	8,312
Sundry items	**50**	(52)
	28,974	42,936
Use of Working Capital		
Purchase of fixed assets	**21,524**	10,635
Dividends	**3,612**	2,295
Repayment of long term debt	**2,199**	3,423
Increase (decrease) in investments	**509**	(3,437)
	27,844	12,916
INCREASE IN WORKING CAPITAL	**1,130**	30,020
WORKING CAPITAL, BEGINNING OF YEAR	**45,016**	14,996
WORKING CAPITAL, END OF YEAR	**$ 46,146**	$ 45,016

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Retail food and department store inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

Real Estate Held For Sale

Real estate held for sale is valued at the lower of cost and net realizable value. Cost includes development expenses and carrying charges including applicable interest on general borrowings.

Fixed Assets and Depreciation

Major enlargements, remodelings and improvements are charged to the appropriate fixed asset accounts. The cost of maintenance and repairs which does not extend the life of the assets is charged against earnings.

Fixed assets are recorded at cost and are depreciated on the straight line basis at rates sufficient to amortize the cost of the assets over their estimated useful life as follows:

Classification	Estimated Useful Life
Buildings	20 to 40 years
Equipment	4 to 10 years
Leasehold improvements	term of lease plus first option to a maximum of 20 years
Property under capital leases	term of lease

Development and Pre-opening Expenses

Development and pre-opening expenses of new stores are written off in the year of opening.

Sale of Stores and Properties

Gains and losses on the sale of stores and properties, other than warehouses and similar operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

2. CHANGE IN ACCOUNTING POLICY

During the year the Company adopted the recommendations of the Canadian Institute of Chartered Accountants in accounting for lease transactions. Under the recommendations, a lease entered into by the Company which, by its terms, transfers substantially all the benefits and risks associated with ownership is recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized on a straight line basis and the obligation, including interest thereon, is liquidated over the term of the lease.

This change in accounting policy did not have a material effect on net earnings for the year. Retroactive application of this policy would have reduced net earnings for the current year by $443,000 and in the balance sheet, assets would have increased by $53,909,000 and obligations by $60,374,000.

3. INVESTMENTS

	1980	1979
	(in thousands)	
Investments in corporate and other joint ventures, equity method	$ 1,765	$ 1,519
Other investments, at cost	1,209	700
	$ 2,974	$ 2,219

4. FIXED ASSETS

	1980	1979
	(in thousands)	
Land	$ 21,465	$ 20,769
Buildings	84,063	77,388
Equipment	82,266	78,212
Leasehold improvements	17,435	15,986
	205,229	192,355
Less: Accumulated depreciation	77,798	72,945
	127,431	119,410
Property under capital leases, less accumulated depreciation of $135,000	2,754	—
	$130,185	$119,410

5. BANK INDEBTEDNESS AND NOTES PAYABLE

Bank indebtedness and notes payable to the extent of $14,025,000 are secured by general assignments of book debts.

6. LONG TERM DEBT

	1980	1979
	(in thousands)	
Bank indebtedness	$ 33,000	$ 34,000
Mortgages and notes payable	32,791	28,408
Series A Sinking Fund Debentures	13,990	14,500
Series A Serial Debentures	—	1,000
Obligations under capital leases (note 11)	2,803	—
	82,584	77,908
Less: Current portion	2,368	2,751
	$ 80,216	$ 75,157

PRINCIPAL REPAYMENTS

Principal repayments of long term debt are as follows:

		(in thousands)
(fiscal year ending in)	1981	$ 2,368
	1982	3,428
	1983	4,717
	1984	8,886
	1985	22,837
	1986-2009	40,348
		$ 82,584

BANK INDEBTEDNESS

Bank indebtedness (including a loan of $20,000,000 secured by a mortgage on a shopping centre) bears interest at rates varying from prime plus ½% to ¾%, and provides for principal repayments from 1981 to 1985.

MORTGAGES AND NOTES PAYABLE

These obligations are secured by certain real estate, bear interest at an average rate of 10.2% per annum and provide for principal repayments from 1981 to 2009.

SERIES A SINKING FUND DEBENTURES

These debentures are secured by a floating charge on the undertaking and assets of the Company, bear interest at a rate of 9¼% per annum and mature June 15, 1991.

The Company has covenanted to retire $9,000,000 principal amount Sinking Fund Debentures prior to maturity as follows:

June 15, 1981 and 1982	$ 500,000 in each year
June 15, 1983 to 1990	1,000,000 in each year

In addition to the mandatory sinking fund payments referred to above, the Company has the non-cumulative right to retire up to $500,000 principal amount of Sinking Fund Debentures in each of the years 1981 to 1986.

7. CAPITAL STOCK

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 1¼¢ per share in priority to payment of dividends on the common shares.

8. SALES

Sales for each of the major categories of the Company's business were as follows:

	1980		1979	
	Amount	%	Amount	%
	(in thousands)		(in thousands)	
Wholesale Food	$ 681,482	46	$ 600,834	45
Retail Food	406,650	28	375,222	28
Institutional Food	85,294	6	78,703	6
General Merchandise	302,237	20	269,860	20
Other	—	—	12,165	1
	$1,475,663	100	$1,336,784	100

9. INTEREST EXPENSE

	1980	1979
	(in thousands)	
Interest on long term debt	$ 9,725	$ 7,652
Other interest	3,635	4,295
Interest on obligations under capital leases	206	—
	13,566	11,947
Less: Interest capitalized to cost of real estate	229	143
	$13,337	$ 11,804

10. EXTRAORDINARY ITEMS

	1980	1979
	(in thousands)	
Gain on sale of marketable securities less income taxes of $573,000 (1979—$545,000)	$1,598	$1,621
Gain on sale of Coinamatic Laundry Equipment Limited, a foreign subsidiary, less income taxes of $150,000	—	6,097
Reduction in carrying value of Décarie Square Shopping Centre in Montreal to reflect estimated economic value less related income taxes of $5,144,000	—	(5,376)
Other items	50	175
	$1,648	$2,517

11. LEASES

Minimum lease payments for store locations, office and warehouse facilities and equipment (exclusive of additional amounts based on percentage of sales, taxes, insurance, and other occupancy charges) under capital and operating leases in future years are as follows:

	Capital Leases Entered Into After January 27, 1979	Operating Leases
	(in thousands)	
Fiscal year ending in		
1981	$ 654	$ 16,683
1982	654	15,978
1983	611	14,950
1984	465	13,967
1985	374	12,961
1986 to 2005	4,897	137,269
Total minimum lease payments	7,655	$211,808
Less: Executory costs	29	
Imputed interest at an average rate of 13.6% per annum	4,823	
	4,852	
Obligations under capital leases	$2,803	

It is expected that rental revenue of $3,706,000 will be received in the fiscal year ending January 24, 1981 from locations which have been sublet.

12. PENSION PLANS

Pension costs included in the consolidated statement of earnings represent current service contributions. There is no unfunded past service liability.

13. CONTINGENT LIABILITIES AND COMMITMENTS

(a) The Company has guaranteed long term leases of Consumers Distributing Company Limited having minimum annual rentals of $1,156,000. The Company has been given a debenture by Consumers Distributing Company Limited as security against any liabilities or costs which may be incurred under these guarantees.

(b) The Company has guaranteed one-half of any deficiency between net rental income and the payment of principal, interest and taxes required under a mortgage loan having a balance of $8,222,000 at January 26, 1980. The Company has received an indemnity against any losses which may be suffered under this guarantee.

(c) A legal action claiming damages for $1,286,000 has been instituted against the Company for an alleged failure to honor a commitment to lease in a shopping centre. In the opinion of counsel, based on the facts now known, the most probable outcome of this action if it were to proceed to trial would be the dismissal of plaintiff's action.

(d) Certain tenants in a shopping centre owned by the Company have instituted a series of actions against the Company for damages aggregating $6,700,000. On the basis of present information, it is the opinion of counsel that the most probable outcome, if these actions proceed to trial, would be their dismissal or judgements the amounts of which would not be material.

(e) Commitments in connection with the construction of a retail and office complex in Sudbury, Ontario amount to approximately $6,000,000.

14. COMPARATIVE FIGURES

The comparative figures for the previous year have been reclassified where necessary, to conform with the current year's presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 26, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For The Oshawa Group Limited and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 26, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in the method of accounting for leases as described in note 2, have been applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 9, 1980

Wm. Eisenberg & Co.
Chartered Accountants

Directors, Management and Salient Data

Max Wolfe
Honorary Chairman of the Board

Directors

Ray D. Wolfe
Chairman of the Board

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*Philip F. Connell, F.C.A.

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